

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003 AND JUNE 30, 2002

Our discussion and analysis of the Tennessee Housing Development Agency's financial performance provides an overview of the agency's financial activities for the years ended June 30, 2003 and June 30, 2002. Please read it in conjunction with the agency's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Year Ended June 30, 2003

- Cash and cash equivalents increased \$101.5 million
- Investments decreased by \$64.0 million
- Bonds and notes payable decreased \$67.7 million
- The agency's total net assets increased \$35.7 million
- The agency originated \$158.9 million in mortgage loans

Year Ended June 30, 2002

- Cash and cash equivalents decreased \$93.3 million
- Mortgage loans receivable increased \$36.5 million
- Investments increased \$33.0 million
- Bonds and notes payable decreased \$47.0 million
- Total liabilities decreased \$13.3 million
- The agency's total net assets decreased \$4.2 million

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements include statements of net assets, statements of revenues, expenses and changes in net assets, statements of cash flows and notes to the financial statements. The statements of net assets provide financial information on the overall financial position of the agency at each year end. The statements of revenues, expenses and changes in net assets summarize the results of operations over the course of each fiscal year. The statements of cash flows provide relevant information about the agency's cash receipts and cash payments during each fiscal year. The notes to the financial statements provide useful information regarding the agency's significant accounting policies, significant account balances and activities, certain material risks, obligations, commitments, contingencies and subsequent events. The agency's financial statements are presented using the accrual basis of accounting and the flow of economic resources measurement focus. In addition to the basic financial statements, other supplementary information is also included.

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FINANCIAL ANALYSIS OF THE AGENCY

Net Assets. The following table focuses on the changes in net assets between fiscal years (expressed in thousands):

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Current assets	\$ 486,913	\$ 356,230	\$ 483,400
Capital assets	-	5	11
Other noncurrent assets	<u>1,813,491</u>	<u>2,014,871</u>	<u>1,905,188</u>
Total assets	<u>2,300,404</u>	<u>2,371,106</u>	<u>2,388,599</u>
Long-term liabilities	1,586,424	1,733,060	1,710,108
Other liabilities	<u>308,264</u>	<u>268,047</u>	<u>304,289</u>
Total liabilities	<u>1,894,688</u>	<u>2,001,107</u>	<u>2,014,397</u>
Invested in capital assets	-	5	11
Restricted net assets	396,203	359,618	367,091
Unrestricted net assets	<u>9,513</u>	<u>10,376</u>	<u>7,100</u>
Total net assets	<u><u>\$ 405,716</u></u>	<u><u>\$ 369,999</u></u>	<u><u>\$ 374,202</u></u>

2003 to 2002

- The agency's total net assets increased \$35.7 million from \$370.0 million at June 30, 2002 to \$405.7 million at June 30, 2003. This increase resulted from the normal operations of the agency.
- Mortgage loans receivable decreased \$111.1 million from \$1,537.4 million at June 30, 2002 to \$1,426.3 million at June 30, 2003. The decrease resulted from loan prepayments exceeding loan originations.
- Total liabilities decreased \$106.4 million from \$2,001.1 million at June 30, 2002 to \$1,894.7 million at June 30, 2003. The decrease is primarily due to the retirement of debt.

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2002 to 2001

The agency's total net assets decreased \$4.2 million in part as a result of the following:

- Operating income for the year ended June 30, 2002 was \$41.2 million.
- Payment to primary government – A payment was authorized from the agency's Asset Fund reported in the Operating Group component in the amount of \$35.4 million under Chapter 825, Public Acts of 2002 and section 9. (2) of Chapter 827, Public Acts of 2002 for the sole purpose of meeting the requirements of funding the operations of the primary government for the fiscal year ended June 30, 2002.
- Grant expenses exceeded grant revenues by \$10.0 million because of grant programs that were funded by the agency.

Changes in Net Assets. The following table summarizes the changes in revenues, expenses and changes in net assets between fiscal years (expressed in thousands):

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Operating revenues			
Mortgage interest income	\$ 104,714	\$ 107,134	\$ 108,862
Investment income	48,538	45,131	54,437
Other	11,055	9,908	7,740
Total operating revenues	<u>164,307</u>	<u>162,173</u>	<u>171,039</u>
Operating expenses			
Interest expense	102,164	102,413	107,466
Other	19,772	18,569	16,553
Total operating expenses	<u>121,936</u>	<u>120,982</u>	<u>124,019</u>
Operating income	<u>42,371</u>	<u>41,191</u>	<u>47,020</u>
Nonoperating revenues (expenses)			
Grant revenues	138,123	127,611	62,309
Grant expenses	(144,777)	(137,638)	(70,938)
Payment to primary government	-	(35,367)	-
Total nonoperating revenues (expenses)	<u>(6,654)</u>	<u>(45,394)</u>	<u>(8,629)</u>
Changes in net assets	<u>\$ 35,717</u>	<u>\$ (4,203)</u>	<u>\$ 38,391</u>

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2003 to 2002

- The change in net assets increased by \$39.9 million from \$(4.2) million at June 30, 2002 to \$35.7 million at June 30, 2003. With no payment to the primary government in 2003, as was made in 2002, a significant change in the agency's net assets occurred.
- Mortgage interest income decreased \$2.4 million from \$107.1 million for the year ended June 30, 2002 to \$104.7 million for the year ended June 30, 2003. The decrease resulted from the prepayments of higher yielding loans and a decrease in loans outstanding.
- Investment income increased \$3.4 million from \$45.1 million for the year ended June 30, 2002 to \$48.5 million for the year ended June 30, 2003. The increase resulted from an increase in the fair value of investments.
- Federal grant revenue and expenses increased by \$10.5 million, from \$127.6 million for the year ended June 30, 2002 to \$138.1 million for the year ended June 30, 2003. The agency was awarded additional contracts to administer under the Section 8 Project Based Program for the United States Department of Housing and Urban Development. Also, revenue and expenses increased in the HOME Program.

2002 to 2001

- The change in net assets decreased by \$42.6 million, from \$38.4 million at June 30, 2001 to \$(4.2) million at June 30, 2002. The decrease primarily resulted from a payment of \$35.4 million to the primary government from the agency's Asset Fund reported in the Operating Group component.
- Total operating revenues decreased by \$8.9 million, from \$171.0 million at June 30, 2001 to \$162.1 million at June 30, 2002. The increase in the fair value of investments was \$9.5 million less than in the previous fiscal year which impacted the total operating revenues.
- Federal grant revenue and expenses increased by \$65.3 million, from \$62.3 million at June 30, 2001 to \$127.6 million at June 30, 2002. The agency was awarded the contract to administer the Section 8 Project Based Program for the United States Department of Housing and Urban Development making only four months of housing assistance payments in fiscal year 2001. In fiscal year 2002, the agency recognized a full year of revenue and paid a full year of housing assistance payments.

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DEBT ACTIVITY

Bonds and notes outstanding at June 30 were as follows (expressed in thousands):

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Bonds payable	\$1,769,506	\$1,820,394	\$1,850,495
Notes payable	<u>51,070</u>	<u>67,909</u>	<u>84,865</u>
Total bonds and notes payable	<u>\$1,820,576</u>	<u>\$1,888,303</u>	<u>\$1,935,360</u>

Year Ended June 30, 2003

Total bonds and notes payable decreased \$67.7 million due primarily to retirement of debt. During the fiscal year, the agency issued debt totaling \$211.7 million, with activity arising from two bond issues totaling \$135.0 million and two draws under the single family mortgage note program totaling \$76.7 million.

Year Ended June 30, 2002

Total bonds and notes payable decreased \$47.1 million due primarily to retirement of debt. During the fiscal year, the agency issued debt totaling \$319.5 million, with activity arising from three bond issues totaling \$209.5 million and two draws under the single family mortgage note program totaling \$110.0 million.

More detailed information about the agency's bonds and notes payable activity is presented in Note 4 to the financial statements.

CONTACTING THDA's FINANCIAL MANAGEMENT

This financial report is designed to provide the agency's stakeholders with a general overview of the agency's finances and to show accountability for the funds that it receives, invests, and expends. If you have questions about this report, or need additional financial information, contact Ted Fellman, CPA, Chief Financial Officer at (615) 741-1104 or via e-mail at Ted.fellman@state.tn.us.